



**Gardner | Provenzano
Schauman & Thomas**

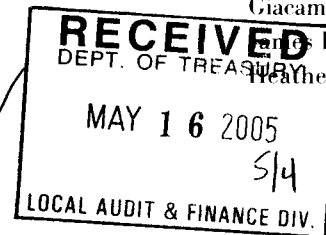
CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner

Giacamo Provenzano

James R. Schauman

Frederick A. Thomas



KALAMAZOO COUNTY ROAD COMMISSION

Kalamazoo, Michigan

Financial Statements

December 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name KALAMAZOO COUNTY ROAD COMMISSION	County KALAMAZOO
Audit Date 12/31/04	Opinion Date 3/18/04	Date Accountant Report Submitted to State: 5/4/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

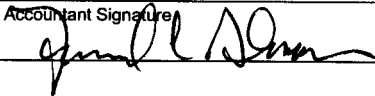
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|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.

Street Address 4855 STATE STREET, SUITE 6	City SAGINAW	State MI	ZIP 48603
Accountant Signature 		Date 5/4/05	

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

March 18, 2005

Members of the Board
of County Road Commissioners
of Kalamazoo County
Kalamazoo, Michigan

We have audited the accompanying financial statements of the Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalamazoo County Road Commission as of December 31, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board
of County Road Commissioners
of Kalamazoo County
Page Two

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Kalamazoo County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2005, on our consideration of the Kalamazoo County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Barbara Provenzano, Schauman & Thomas
Certified Public Accountants

MANAGEMENT'S DISCUSSION & ANALYSIS

Introduction

The Kalamazoo County Road Commission (KCRC) is a special purpose government engaged in a single government program of road maintenance and construction in the County of Kalamazoo, Michigan. Since 2002, the adoption of Governmental Accounting Standards Board Statement Number 34 has changed the KCRC financial statement presentation. In prior years, the KCRC was required to report financial information only on the modified accrual accounting method. The modified accrual method of accounting focuses on current available resources and is referred to as governmental fund level accounting. Now, in addition to the governmental fund level information, governmental entities are also required to report financial information on the full accrual method of accounting. The full accrual method of accounting focuses on the entity as a whole and is referred to as government-wide level accounting. For KCRC, the most significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and the infrastructure (roads, bridges, and signals). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

With respect to the statements on financial position and activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of the KCRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2004.

Condensed Financial Statements

Following are condensed government-wide financial statements for the KCRC. The reports include the current and prior year balances for comparison.

KALAMAZOO COUNTY ROAD COMMISSION

Condensed Statement of Net Assets

	2004	2003
Assets		
General fund	\$ 5,543,921	\$ 3,671,450
Capital assets	101,669,198	95,654,841
Total Assets	<u>\$ 107,213,119</u>	<u>\$ 99,326,291</u>
Liabilities		
General fund liabilities	\$ 834,266	\$ 894,891
Liabilities associated with long-term debt	290,600	453,336
Total Liabilities	<u>1,124,866</u>	<u>1,348,227</u>
Net Assets		
General fund net assets	4,721,279	2,776,559
Invested in capital assets - net of related debt	101,366,974	95,201,505
Total Net Assets	<u>\$ 106,088,253</u>	<u>\$ 97,978,064</u>

Condensed Statement of Activities

Revenue		
Intergovernmental	\$ 20,868,530	\$ 19,173,795
Other contributions and service charges	209,030	194,434
Other	2,295,398	2,606,400
Total Revenue	<u>23,372,958</u>	<u>21,974,629</u>
Expenses		
Primary maintenance	2,786,516	2,657,265
Local maintenance	3,582,679	3,370,886
Depreciation	8,005,888	7,695,814
Administrative	858,626	873,300
Interest	29,060	40,683
Total Expenses	<u>15,262,769</u>	<u>14,637,948</u>
Change In Net Assets	<u>\$ 8,110,189</u>	<u>\$ 7,336,681</u>

Comments on the Condensed Financial Statements

The positive growth associated with the net assets reflects a continuing growing economy for the Kalamazoo County region. As the condensed financial statements reflect, the change in net assets for the year ending December 31, 2004 was \$8,110,189, a 10% increase over 2003. This growth represents the continuing investment in substantial and important primary road projects such as the replacement of the D Avenue bridge over the Kalamazoo River in Cooper Township, as well as the development of new roads that were transferred into the public road system. Of course, the amount of expenditures for capital assets and the development projects transferred into the public road system are offset by the current year depreciation.

The ending General Fund net of assets of \$4,721,279, while up 70% from the 2003 balance, includes funding committed for projects included in the capital improvement plan for the next construction season, as well as an attempt to build a reserve fund balance to provide for potential increases in expenses. Additionally, 2003 was an exceptional year for cash outlay as simultaneous bridge projects on Sprinkle Road were undertaken. The impact of those projects was reflected in the lower general fund balance for that year.

Budget

The KCRC's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

Original Budget Versus Amended Budget

The 2004 budget was adopted in December 2003. The budget is reviewed periodically and amended as information becomes available or management's plans change. The original budgeted revenue was only changed insignificantly in various categories except for two revenue items. The Michigan Transportation Fund (MTF) budget was increased by \$1,000,000 to reflect the one time additional revenue from this source. In 2004, the state changed the license cost for trailers to a higher one time fee in lieu of a smaller annual fee. Also, the state eliminated some of the off-the-top deductions from the MTF, which will also reflect a non-recurring gain. The federal revenue budget item increased by \$600,000. This increase incorporates a 2003 project on Nazareth Road that was not finalized until 2004.

The expenditure categories were adjusted as necessary during the year without significant changes in any of the expenditure account classifications.

Amended Budget Versus Actual

The actual revenue exceeded the expectation of the amended budget by \$420,501, or 2%. All except one of the revenue accounts had a favorable variance.

On the expenditure side, actual expenses were less than budgeted by \$1,477,877, or 7.6%. The major item associated with the favorable variance is in the budgeted maintenance expenditures. However, there were significant cost reductions for budgeted routine maintenance work activities. Due to a relatively mild winter season, \$500,000 in cost savings was realized. Other significant items impacting the favorable reduction in expense were:

- A favorable equipment usage allocation of \$260,000
- Liability insurance refund for closed periods of \$167,448
- Favorable pricing reflected in the competitive bids for projects and equipment

Capital Assets and Long Term Debt

The KCRC has capital assets including infrastructure (roads, bridges and signals) valued, for full accrual accounting purposes, net of accumulated depreciation of \$101,669,198 as summarized below.

	<u>2004</u>	<u>2003</u>
Land and improvements	\$ 9,262,386	\$ 7,025,695
Buildings and improvements	3,467,573	3,432,478
Road equipment	5,629,408	5,675,163
Other equipment	1,178,503	1,216,260
Infrastructure and improvements	<u>170,015,192</u>	<u>158,728,081</u>
Total Capital Assets	189,553,062	176,077,677
Accumulated Depreciation	<u>(87,883,864)</u>	<u>(80,422,836)</u>
Net Capital Assets	<u>\$ 101,669,198</u>	<u>\$ 95,654,841</u>

Additional information regarding capital assets is located in Note 3 of the financial statements.

Additional information regarding long-term debt is included in Note 4 of the financial statements.

Other, Including Economic Factors

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the KCRC financial condition.

KALAMAZOO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 2,127,555	\$ -	\$ 2,127,555
Accounts Receivable			
State Transportation Department	2,111,190	-	2,111,190
Due on County Road Agreements	186,299	-	186,299
Other	202,877	-	202,877
Inventories			
Equipment materials and parts	63,586	-	63,586
Road materials	626,982	-	626,982
Deferred expense	48,337	-	48,337
Prepaid expense	130,195	-	130,195
Advance	44,900	-	44,900
Surplus property	2,000	-	2,000
Capital Assets			
Land and land improvements	-	9,041,022	9,041,022
Other capital assets, net of accumulated depreciation	-	92,628,176	92,628,176
Total Assets	<u>\$ 5,543,921</u>	<u>\$ 101,669,198</u>	<u>\$ 107,213,119</u>
LIABILITIES			
Accounts payable	\$ 254,672	\$ -	\$ 254,672
Accrued liabilities	121,628	-	121,628
Advances	29,900	-	29,900
Deferred revenue	271,692	-	271,692
Escrow agreement	1,600	-	1,600
Kalamazoo Area Transportation Study	143,150	-	143,150
Accrued interest on installment purchase agreement	-	11,624	11,624
Long-term Liabilities			
Due within one year	-	145,300	145,300
Due in more than one year	-	145,300	145,300
Total Liabilities	<u>822,642</u>	<u>302,224</u>	<u>1,124,866</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Reserved for inventories and prepaids	820,763	(820,763)	-
Unreserved			
Undesignated	3,900,516	(3,900,516)	-
Total Fund Balance	<u>4,721,279</u>	<u>(4,721,279)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 5,543,921</u>		
Net Assets:			
Invested in capital assets, net of related debt		101,366,974	101,366,974
Restricted for primary		2,736,670	2,736,670
Unrestricted		1,984,609	1,984,609
Total Net Assets		<u>\$ 106,088,253</u>	<u>\$ 106,088,253</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balance	\$ 4,721,279
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	101,669,198
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(302,224)
Net Assets of Governmental Activities	<u>\$ 106,088,253</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$ 13,590,204	\$ -	\$ 13,590,204
Economic development fund	612,989	-	612,989
Federal grants	5,115,076	-	5,115,076
Critical bridge	411,616	-	411,616
Township and City contributions	1,138,646	-	1,138,646
Other contributions and service charges	209,029	-	209,029
Other revenues	280,071	2,015,327	2,295,398
Total Revenue	<u>21,357,631</u>	<u>2,015,327</u>	<u>23,372,958</u>
Expenditures			
Primary heavy maintenance	9,397,174	(9,397,174)	-
Primary maintenance	3,163,594	(377,078)	2,786,516
Local heavy maintenance	2,198,334	(2,198,334)	-
Local maintenance	4,085,998	(503,319)	3,582,679
Administrative	973,333	(114,707)	858,626
Net equipment expense	(388,229)	388,229	-
Net capital outlay			
Capital outlay	482,763	(482,763)	-
Depreciation	(680,228)	680,228	-
Depreciation	-	8,005,888	8,005,888
Interest	34,872	(5,812)	29,060
Total Expenditures	<u>19,267,611</u>	<u>(4,004,842)</u>	<u>15,262,769</u>
Excess of Revenue Over (Under) Expenditures	2,090,020	(2,090,020)	-
Other Financing Sources (Uses)			
Payments on land contracts	(145,300)	145,300	-
Total Other Financing Sources (Uses)	<u>(145,300)</u>	<u>145,300</u>	<u>-</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	1,944,720	(1,944,720)	-
Change in Net Assets	-	8,110,189	8,110,189
Fund Balance/Net Assets - Beginning of Year	2,776,559	95,201,505	97,978,064
Fund Balance/Net Assets - End of Year	<u>\$ 4,721,279</u>	<u>\$ 101,366,974</u>	<u>\$ 106,088,253</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balance \$ 1,944,720

Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Development projects transferred in	2,015,327
Expenditures for capital assets	12,078,271
Current year depreciation	(8,005,888)

Governmental fund reports proceeds from borrowing as other financing sources and payments on borrowing as other financing uses. Long-term debt principal increases/decreases are not included in the statement of activities.

Payments on land contracts	145,300
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Governmental fund only reports the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Non-depreciated amount of capital assets disposed	(73,353)
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In the Statement of Activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.

Interest payable on purchase agreements	5,812
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Change in Net Assets of Governmental Activities	<u>\$ 8,110,189</u>
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See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Kalamazoo County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

A. Reporting Entity

The commission is governed by a three-member board of county road commissioners appointed by the Kalamazoo County Board of Commissioners. The commission is a component unit of the Kalamazoo County and its financial statements are an integral part of the comprehensive annual financial report of the Kalamazoo County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Kalamazoo County Road Commission, a discretely presented component unit of Kalamazoo County, and include the commission's general operations fund.

B. Basic Financial Statements – Government-Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements – Government-Wide Statements (continued)

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

C. Basic Financial Statement – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Basic Financial Statement – Fund Financial Statements (continued)

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.

E. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used. Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

F. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

F. Capital Assets and Depreciation (continued)

road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

G. Budgets and Budgetary Accounting

Budgetary procedures require the commissioners to approve a budget for the general operations of the fund. Pursuant to this requirement, the commission follows these procedures:

- The director submits a proposed operating budget for the fiscal year to the board of county road commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the board of county road commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year by an official action of the board.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

G. Budgets and Budgetary Accounting (continued)

Expenditures which exceeded appropriations are as follows:

	Amended Budget	Expenditure	Variance
Depreciation	\$ (700,000)	\$ (680,228)	\$ (19,772)

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

At year-end, the carrying amount of the commission's deposits was \$2,127,555 and the bank balance was \$2,292,610. Of the bank balance \$200,000 was covered by federal depository insurance and \$2,092,810 was uninsured and uncollateralized.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments (continued)

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.
- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Demand deposits	\$ -	\$ -	\$ 12,355	\$ 177,610	\$ 12,355
Time deposits	-	-	2,115,000	2,115,000	2,115,000
Cash on hand	-	-	200	-	200
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,127,555</u>	<u>\$ 2,292,610</u>	<u>\$ 2,127,555</u>

NOTE 3--Capital Assets and Depreciation

Changes in capital assets for the year are as follows:

	Balance 12-31-2003	Additions	Retirements	Balance 12-31-2004
Capital Assets Not Being Depreciated				
Land and improvements	\$ 1,198,399	\$ -	\$ -	\$ 1,198,399
Land and improvements, infrastructure	5,827,296	2,236,691		8,063,987
Total Land and improvements	<u>7,025,695</u>	<u>2,236,691</u>	<u>-</u>	<u>9,262,386</u>
Other Capital Assets				
Buildings and improvements	3,432,478	35,095	-	3,467,573
Road equipment	5,675,163	439,868	(485,623)	5,629,408
Other equipment	1,216,260	7,800	(45,557)	1,178,503
Infrastructure and improvements	158,728,081	11,374,144	(87,033)	170,015,192
Total Other Capital Assets	<u>169,051,982</u>	<u>11,856,907</u>	<u>(618,213)</u>	<u>180,290,676</u>
Total Capital Assets	<u>176,077,677</u>	<u>14,093,598</u>	<u>(618,213)</u>	<u>189,553,062</u>
Accumulated Depreciation				
Buildings and improvements	(1,621,664)	(80,821)	-	(1,702,485)
Road equipment	(4,360,388)	(458,279)	412,270	(4,406,397)
Other equipment	(899,809)	(141,128)	45,557	(995,380)
Infrastructure and improvements	(73,540,975)	(7,325,660)	87,033	(80,779,602)
Total Accumulated Depreciation	<u>(80,422,836)</u>	<u>(8,005,888)</u>	<u>544,860</u>	<u>(87,883,864)</u>
Total Net Capital Assets	<u>\$ 95,654,841</u>	<u>\$ 6,087,710</u>	<u>\$ (73,353)</u>	<u>\$ 101,669,198</u>

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Long-Term Liabilities

Following is a summary of long term liabilities for the year ended December 31, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Notes Payable:				
Land contracts	\$ 435,900	\$ -	\$ 145,300	\$ 290,600
Total Long-Term Debt	<u>\$ 435,900</u>	<u>\$ -</u>	<u>\$ 145,300</u>	<u>\$ 290,600</u>

Debt service requirements as of December 31, 2004 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	145,300	23,248	168,548
2006	145,300	11,624	156,924
Totals	<u>\$ 290,600</u>	<u>\$ 34,872</u>	<u>\$ 325,472</u>

NOTE 5--Defined Benefit Pension Plan

Plan Description

The commission's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The commission participates in the Kalamazoo County Employees Retirement System, a Public Employee Retirement System which is an agent multiple-employer plan administered by the Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Kalamazoo County Employees Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Funding Policy

The commission is required to contribute at an actuarially determined rate; the current rate is 8.09% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by Kalamazoo County Employees Retirement System based on an actuarial valuation. The contribution requirements of plan members, if any, are established and may be amended by the commission depending on the plan's contribution program.

Annual Pension Cost

For the year ended December 31, 2004, the commission's annual pension cost of \$233,231 for the plan approximated the commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% and (b) projected salary increases of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan assets was determined on the basis of a market value method with five years smoothing.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-01	\$ -	100.00%	\$ -
12-31-02	-	100.00%	-
12-31-03	192,645	103.10%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a % of Covered Payroll {b-a}/{c}
12-31-01	\$ 17,503,418	\$ 12,120,480	\$ (5,382,938)	144.4%	\$ 2,710,965	-198.6%
12-31-02	16,147,397	13,789,623	(2,357,774)	117.1%	2,812,810	-83.8%
12-31-03	16,321,860	14,385,904	(1,935,956)	113.5%	2,887,703	-67.0%

NOTE 6--Risk Management

The commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2004, the commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

KALAMAZOO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Risk Management (continued)

Also during 2004, the commission participated in the County Road Association Self Insurance Fund (SIF) for its workers compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through member premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

REQUIRED SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATIONS FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 12,300,000	\$ 13,300,000	\$ 13,590,204	\$ 290,204
Economic Development Fund	890,000	564,000	612,989	48,989
Township and City contributions	950,000	950,000	1,138,646	188,646
Federal	4,344,130	4,944,130	5,115,076	170,946
Critical Bridge	420,000	409,000	411,616	2,616
Cities	25,000	-	-	-
Interest	40,000	20,000	30,486	10,486
Other	750,000	750,000	458,614	(291,386)
Total Revenue	<u>19,719,130</u>	<u>20,937,130</u>	<u>21,357,631</u>	<u>420,501</u>
Expenditures				
Maintenance	19,377,663	19,977,663	18,845,100	1,132,563
Administration	1,039,825	1,029,825	973,333	56,492
Capital Outlay	599,000	674,000	628,063	45,937
Equipment	(15,700)	(90,700)	(353,357)	262,657
Depreciation	(800,000)	(700,000)	(680,228)	(19,772)
Total Expenditures	<u>20,200,788</u>	<u>20,890,788</u>	<u>19,412,911</u>	<u>1,477,877</u>
Excess of Revenues Over (Under) Expenditures	(481,658)	46,342	1,944,720	1,898,378
Fund Balance, Beginning of Year	2,776,559	2,776,559	2,776,559	-
Fund Balance, End of Year	<u>\$ 2,294,901</u>	<u>\$ 2,822,901</u>	<u>\$ 4,721,279</u>	<u>\$ 1,898,378</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - - SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Roads	Local Roads	County Road Funds	Total
Revenues				
Transportation Fund				
Engineering	\$ 7,573	\$ 2,427	\$ -	\$ 10,000
Snow removal	3,161	-	-	3,161
Urban road	1,780,648	568,452	-	2,349,100
Allocation	8,503,240	2,724,703	-	11,227,943
Total Transportation Fund	<u>10,294,622</u>	<u>3,295,582</u>	<u>-</u>	<u>13,590,204</u>
Economic Development Fund	612,989	-	-	612,989
Federal	5,115,875	(799)	-	5,115,076
Critical Bridge	411,766	(150)	-	411,616
Township & City contributions	137,273	1,001,373	-	1,138,646
Other contributions and charges for services	51,295	149,476	8,258	209,029
Total County	<u>16,623,820</u>	<u>4,445,482</u>	<u>8,258</u>	<u>21,077,560</u>
Other				
Gain on disposal	-	-	108,039	108,039
Special assessments	-	62,685	-	62,685
Interest earned	9,738	4,191	16,557	30,486
Miscellaneous	2,525	70,000	6,336	78,861
Total Other	<u>12,263</u>	<u>136,876</u>	<u>130,932</u>	<u>280,071</u>
Total Revenues	<u>16,636,083</u>	<u>4,582,358</u>	<u>139,190</u>	<u>21,357,631</u>
Expenditures				
Construction	-	-	-	-
Heavy Maintenance	9,397,174	2,198,334	-	11,595,508
Maintenance	3,163,594	4,085,998	-	7,249,592
Total Construction and Maintenance	<u>12,560,768</u>	<u>6,284,332</u>	<u>-</u>	<u>18,845,100</u>
Other				
Administrative expense	648,753	324,580	-	973,333
Net equipment expense	(128,249)	(180,141)	(6,486)	(314,876)
Net capital outlay	-	-	(125,518)	(125,518)
Interest	-	-	34,872	34,872
Total Other	<u>520,504</u>	<u>144,439</u>	<u>(97,132)</u>	<u>567,811</u>
Total Expenditures	<u>13,081,272</u>	<u>6,428,771</u>	<u>(97,132)</u>	<u>19,412,911</u>
Excess of Revenues Over (Under) Expenditures	<u>3,554,811</u>	<u>(1,846,413)</u>	<u>236,322</u>	<u>1,944,720</u>
Other Financing Sources (Uses)				
Optional transfers	(1,846,413)	1,846,413	-	-
Payments on land contracts	-	-	-	-
Total Other Financing Sources (Uses)	<u>(1,846,413)</u>	<u>1,846,413</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>1,708,398</u>	<u>-</u>	<u>236,322</u>	<u>1,944,720</u>
Fund Balances, Beginning	1,028,272	-	1,748,287	2,776,559
Fund Balances, Ending	<u>\$ 2,736,670</u>	<u>\$ -</u>	<u>\$ 1,984,609</u>	<u>\$ 4,721,279</u>

KALAMAZOO COUNTY ROAD COMMISSION
SCHEDULE OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Federal CFDA Number	Passed Through Grantor ID	Cash Accrued or (Deferred) Revenue January 1, 2004	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue December 31, 2004
U.S. Department of Transportation Highway Research, Planning and Construction Passed through State of Michigan Department of Transportation	20.205					
29th Street, S Avenue to Q Avenue		59491A	\$ -	\$ 25,324	\$ 25,324	\$ -
42nd Street and 43rd Street from TS Avenue to R Avenue		76271A	-	940,091	940,091	-
Sprinkle Road Over M-96 at Kalamazoo River		56552A	-	25,510	25,510	-
South Sprinkle Road Bridge Over Railroad		59716A	-	57,216	57,216	-
X Avenue Bridge Over Little Portage Creek		43531A	-	(799)	(799)	-
D Avenue Bridge Over Kalamazoo River		56553A	-	2,110,348	2,110,348	-
9th Street From 8th Street to I-94		40167A	-	133	133	-
MN Avenue, 35th Street to Mercury Drive		35186A	-	316	316	-
180 Meters North of Parkview to Stadium Drive		72432A	-	9,817	9,817	-
Q Avenue at 8th Street Intersection		56096A	-	383,972	383,972	-
Nazareth Road From Guil Road to G Avenue		56094A	-	531,154	531,154	-
South Sprinke Road From East Centre to Milham Road		56214A	-	635,192	635,192	-
G Avenue From 35th Street to 37th Street		78056A	-	394,545	394,545	-
Subtotals			-	5,112,819	5,112,819	-
South Sprinkle Road Bridge over Railroad		59716A	-	2,257	2,257	-
Total Federal Assistance			\$ -	\$ 5,115,076	\$ 5,115,076	\$ -

Note: Federal financial awards received under the highway planning and construction program in the amount of \$5,112,819 are administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

March 18, 2005

Members of the Board
of County Road Commissioners
of Kalamazoo County
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalamazoo County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of the Board
of County Road Commissioners
of Kalamazoo County
Page Two
March 18, 2005

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalamazoo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

Gardner, Provenzano, Schauman & Thomas

Gardner, Provenzano, Schauman & Thomas, P.C.